Regal Energy Corp.

2004 Annual Report

Profile

Regal Energy Corp. is actively engaged in the exploration, acquisition, development and production of crude oil and natural gas in western Canada. Regal's corporate objective is to create sustainable and profitable per share growth. To accomplish this, the Corporation will pursue an integrated growth strategy involving a regional exploration focus, complimentary acquisitions of partly developed and undeveloped assets together with development and exploration drilling with an emphasis placed on successful economics.

Regal's common shares are listed and posted for trading on the TSX Venture Exchange under the symbol "RGN".

Shareholder Meeting

The Annual and Special Meeting of the Shareholders of Regal Energy Corp. will be held on Thursday May 12, 2005 at 10:00 a.m. in the Boardroom of Burstall Winger LLP, Suite 3100, Home Oil Tower, 324 - 8th Avenue S.W., Calgary, Alberta. Shareholders who are unable to attend the Meeting are requested to complete and return the Form of Proxy to Olympia Trust Company.

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Abbreviations

$M	thousands of dollars
ARTC	Alberta Royalty Tax Credit
Bbls	barrels
Boe	barrels of oil equivalent (1)
Boe/d	barrels of oil equivalent per day
Bbl	barrels of oil & NGLs
Bbl/d	barrels of oil per day
MBbls	thousand barrels
MBoe	thousand barrels of oil equivalent (1)
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MStb	thousand stock tank barrels
NGLs	natural gas liquids

Note: (1) Natural gas is equated to oil on the basis of 6 Mcf of natural gas = 1 barrel of oil equivalent (Boe)

Forward-looking statements

Certain information set forth in this document, including management's assessment of Regal's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Regal's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Regal's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. Regal disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

YEAR IN REVIEW

		For the twelve months ended December 31, 2004
Financial [(1)]		
Petroleum and natural gas sales [(2)]	$	847,065
Cash flow from operations [(3)]	$	13,958
Earnings (loss)	$	(333,037)
Capital expenditures [(4)]	$	3,958,146
Working capital surplus (deficiency)	$	(460,764)
Total assets	$	4,543,465
Shareholders' equity	$	2,507,220
Shares outstanding as of April 12, 2005		25,207,173
Shares issuable upon exercise of warrants as of April 12, 2005		1,641,334
Stock options outstanding as of April 12, 2005		1,570,000
Operating [(1)]		
Production:		
Natural gas (Mcf)		61,283
Oil and NGLs (Bbl)		10,553
Total production (Boe) [(5)]		20,767
Natural gas (Mcf/d)		167
Oil and NGLs (Bbl/d)		29
Total production (Boe/d) [(5)]		57
Average selling price:		
Natural gas ($/Mcf)		6.52
Oil and NGLs ($/Bbl)		42.42
Total production ($/Boe) [(5)]		40.79
Operating Netback ($/Boe) [(5)]		23.82
Reserves [(1) (6)]		
Proved plus probable:		
Natural gas (MMcf)		396
Oil and NGLs (MBbl)		145
Total barrels of oil equivalent (MBoe) [(5)]		211
Net present value of future cash flows before tax ($M):		
@ 10% discount rate		3,514
@ 15% discount rate		3,218

Notes:

(1) *The Corporation began active operations during the first quarter of 2004. Comparative results are contained in this report where appropriate.*

(2) *Net of transportation costs.*

(3) *Cash flow before net change in non-cash operating working capital balances does not conform to Generally Accepted Accounting Principles (GAAP). Refer to the Net Earnings and Cash Flow from Operations section of the Management's Discussion and Analysis.*

(4) *Includes non cash consideration paid for acquisition of assets, asset retirement and future tax valuation increase.*

(5) *Natural gas is converted to oil equivalent at 6 Mcf = 1 Bbl. A Boe conversion ratio of 6 Mcf = 1 Bbl is based on an energy equivalency conversion method and does not represent a value equivalency at the wellhead; therefore Boe's may be misleading if used in isolation.*

(6) *As determined by Gilbert Laustsen Jung Associates Ltd. in accordance with NI 51-101. Working interest share of reserves before deduction of royalties. Forecast prices and costs.*

President's Report to the Shareholders of Regal Energy Corp.

In 2004, during its first year of operations, Regal pursued a balanced acquisition, exploration and development strategy and established three producing properties within southern Alberta with upside potential. These properties located at Viking Kinsella, Veteran and Atlee Buffalo have provided Regal with an increasing production base that is expected to generate sufficient cash flow to carry out our 2005 capital program.

Highlights of 2004

- Acquired 665433 Alberta Ltd., a private petroleum exploration and development corporation for aggregate consideration of $1.3 million thereby completing Regal's Qualifying Transaction as a capital pool company;

- Acquired a 30 percent interest in a light oil property at Veteran for $0.6 million;

- Acquired an average 57 percent interest in a natural gas and heavy oil property at Atlee Buffalo for $0.3 million;

- Participated in drilling three wells, recompleting two wells and reactivating one well;

- Added 211,000 barrels of oil equivalent proved plus probable reserves as determined by our independent engineers, Gilbert Laustsen Jung Associates Ltd. This was approximately 10 times 2004 production. Proved plus probable reserve value (PV10 before tax using Forecast Prices and Costs) was $3.5 million;

- Raised $3 million in new equity;

- Achieved positive cash flow for the year with fourth quarter 2004 cash flow increasing to $58,336 compared to $8,290 in the third quarter, $(3,721) in the second quarter and $(48,947) in the first quarter. Regal averaged 80 Boe/d for the fourth quarter of 2004 versus 49 Boe/d for the three quarters ended September 2004 and exited 2004 at 150 Boe/d;

- Assembled a strong management team with over 180 years of combined industry experience. Regal now has five permanent employees and one part-time employee in the Calgary office and one field contract employee located at Atlee Buffalo.

Commodity price environment.

The prospect of global oil demand increasing faster than non-OPEC output in 2005, spare capacity within OPEC at a thirty year low, and recent statements by the Saudi oil minister that oil will trade in the US $40.00-$50.00 per barrel range in 2005 have prompted a number of industry participants to raise their oil price assumptions for 2005. Lower production growth and unyielding demand growth in coming years could prolong a tight global supply/demand equation. Longer-term oil prices are projected to be in the US $35.00-$40.00 per barrel range for West Texas Intermediate.

The underlying fundamentals for natural gas remain extremely bullish. The combination of declining domestic gas supply, a strong U.S. economy, and favorable fuel-switching ratios may eventually result in natural gas prices trading at or near energy parity with petroleum liquids. Longer-term natural gas prices are projected to be in the US $6.00/Mcf range.

Increasing commodity prices have been a strong stimulus to our industry, however, these higher levels of activity are usually accompanied by increasing capital and operating cost pressures. Competition for land

and opportunities and the lack of available equipment and manpower will likely present an on-going challenge to industry participants.

Growing our Base of Operations

At Atlee Buffalo, two reactivated heavy oil wells continue to perform to expectations. A third heavy oil well was also recently recompleted and placed on production. We have completed an evaluation of 2D seismic data over our lands and anticipate several vertical development oil wells will be drilled during 2005. We also anticipate that one well will also be drilled for natural gas production.

At North Veteran we recompleted one well and drilled one well to earn a 50 percent interest in 260 acres of land. The two new wells are producing light oil from the Dina formation. Additional drilling activity during 2005 will depend on the result of an extended production test on the wells.

We are pleased to report two new prospects resulting from recently signed agreements:

- Regal has entered into a farm in and option agreement encompassing one section in the Sounding Lake area of east central Alberta. Regal has agreed to drill a well to earn a 100 percent interest, subject to a convertible overriding royalty until payout, at which time its interest will revert to 50 percent. Regal will earn an interest in one half section with its first well and can earn the balance of the section by drilling one additional well. The Farmor has the right to participate with Regal at a 50 percent interest in any oil development on reduced spacing. The farm in will primarily target Mannville oil potential; and

- Regal has entered into a farm in agreement encompassing two half sections in the Kaybob area of west central Alberta. Regal will earn a 100 percent interest in the lands subject to a non convertible overriding royalty by drilling a well to a depth of approximately 2,000 metres. This prospect, targeting liquids rich natural gas, will require a pooling to complete a gas spacing unit and Regal expects that its level of participation in the drilling of the well will be approximately 50 percent.

Outlook

In February 2005, we completed our acquisition of Thunder Road Resources Ltd. ("TRRL"), a private Alberta oil and gas company, through a share exchange. This acquisition added 12 barrels per day of long life, light oil production in the Morinville and Judy Creek areas of Alberta, proved plus probable oil reserves of 66,000 barrels, $540,000 of tax pools, $130,000 of net working capital, and additional lands in our core area. We welcome the shareholders of TRRL and look forward to their participation in our future.

Regal expects to average 350 barrels of oil equivalent per day of production during 2005. Cash flow is expected to be approximately $1.7 million ($0.07/share) based on wellhead prices of $43.19 per barrel for light oil, $25.70 per barrel for heavy oil and $6.37 per thousand cubic feet for natural gas. Regal had flow-through expenditure commitments of approximately $762,000 remaining as of year-end 2004. These will be satisfied through qualified drilling expenditures prior to December 31, 2005.

Our capital expenditures budget for 2005 is expected to be $2.5 million, including the $394,000 share exchange transaction with TRRL. Regal will spend approximately $2.1 million to drill, complete and equip 7 (4.7 net) wells. Our year-end 2005 debt to cash flow ratio is expected to be approximately 0.25 to 1. We will continue to pursue opportunities that have the potential to accelerate our rate of growth.

We believe the energy industry continues to afford a superior long-term opportunity for investors. We are establishing a platform to compete and expand in our core areas through acquisitions, exploration and development. We have a vision of building a company to last, with a long-term, as opposed to quarter-to-

quarter focus, through disciplined and careful growth. We have assembled a solid team that has the technical knowledge and drive to grow and maximize the value of Regal's assets for the benefit of our shareholders.

I would like to express my thanks for the on-going guidance and advice of our Board of Directors during 2004.

On behalf of the Board of Directors

DOUGLAS O. McNICHOL

President and Chief Executive Officer

April 12, 2005

REVIEW OF OPERATIONS

The business plan of Regal Energy Corp. ("Regal" or "the Corporation") is focused on creating sustainable and profitable per share growth in the oil and natural gas industry in western Canada. To accomplish this, Regal pursues an integrated growth strategy including targeted acquisitions of partly developed and undeveloped assets, together with development and exploration drilling within its primary project area of southern Alberta.

Regal's activity is presently concentrated in southern and central Alberta, from the 4th Meridian to Range 22 of the 5th Meridian, south of Township 65. Most of this region is accessible year-round, has well-developed infrastructure and there is multi-zone potential for crude oil and natural gas.

Generally, the Corporation looks for properties where reserves and production volumes can be increased with modest capital spending and within a reasonable time frame. Regal also generates exploration plays that have low to medium risk and multi-zone potential. The presence of lands open for leasing or farm in deals guides the exploratory program.

Management seeks to control the timing and costs of all of its projects. Accordingly, the Corporation attempts to become the operator of its properties to the greatest extent possible. Further, to minimize competition within its geographic area of interest, Regal intends to maximize its working interest ownership in its properties.

A key element of Regal's ultimate success will be the broad experience of its management team that will allow the Corporation to find, evaluate and select opportunities that will promote value creation.

OIL AND GAS PROPERTIES

Viking Kinsella, Alberta

On January 30, 2004, Regal completed the acquisition of 665433 Alberta Ltd., a private oil and gas company incorporated in Alberta that owned a producing natural gas well and associated gathering and wellsite facilities at Viking Kinsella. Regal received a 7.5 percent overriding royalty on natural gas sales from the well to the end of the first quarter of 2004 at which time the payout of drilling, completion and tie-in costs occurred. After payout Regal holds an undivided 20 percent working interest in the well and associated facilities and approximately 2 sections of land. The gas well averaged 1,050 Mcf/d (212 Mcf/d net) for the period of April 1 to December 31, 2004.

In August, 2004 Regal participated at a 20% working interest in a new well at Viking Kinsella that was drilled and completed for Colony gas. The well was placed on stream in September 2004 however it began producing water and was shut in pending a review to determine if artificial lift could sustain gas production. The operator has decided to leave the well shut-in until after the winter season.

Veteran, Alberta

In February 2004 Regal acquired a 30 percent interest in a producing light oil pool at Veteran for $0.6 million. The property continues to produce oil at a steady rate of 87 Bbl/d (26 Bbl/d net). During 2005 the operator of the property is planning to upgrade water handling facilities and reactivate one or two oil wells.

In October 2004, Regal entered into a farm in and option agreement encompassing 3 sections at North Veteran, located in close proximity to the Corporation's existing Veteran property. Prior to year-end 2004 Regal recompleted a well at 1-3-37-8 W4 to earn a 50 percent working interest in 160 gross acres and an option to earn a 50% working interest in additional lands through exploratory and development drilling.

The 1-3-37-8 W4 well commenced production in December 2004. Regal drilled its first option well at 5A-2-37-8 W4 and earned a 50 percent interest in an additional 100 gross acres of land. The Corporation paid 80 percent of the drilling cost to earn a 50 percent interest in the well that was completed as a Dina oil well and commenced production in February 2005. The two new wells are currently producing light oil from the Dina formation. Additional drilling activity during 2005 will depend on the results of an extended production test on the wells.

Regal continues to pursue a number of prospects in the Veteran and Sounding Lake areas of east central Alberta. The Corporation recently signed an agreement to farm in on one section of land in the Sounding Lake area. Sounding Lake is located approximately 50 kilometres north east of the Veteran area. The prospective target is lower Cretaceous, Mannville oil.

Atlee Buffalo, Alberta

On October 25, 2004 Regal closed the acquisition of a property at Atlee Buffalo from an intermediate sized exploration and production company. Regal now owns various working interests (50-100 percent) in three sections of petroleum and natural gas mineral rights and in 2 producing gas wells and 3 producing heavy oil wells. In November 2004, Regal reactivated a heavy oil well at 6-31-21-4 W4, in February 2005 reactivated a second well at 4-31-21-4 W4 and in March 2005 recompleted and placed on stream a third well at 8-36-21-5 W4. The three wells are currently producing heavy oil from the Glauconitic and Ostracod sands of the Mannville formation at a depth of approximately 875 metres.

Regal completed an evaluation of 2D seismic data it acquired over its lands and anticipates several vertical development wells will be drilled during 2005. Regal's 2005 business plan also contemplates that one well will be drilled for natural gas production mid-year on the property.

ENVIRONMENT & SAFETY

Exemplary performance in the areas of health, safety, and the environment is essential in fulfilling Regal's business goals, enhancing shareholder value, and meeting the needs and expectations of the stakeholders. To achieve this, Regal integrates health, safety, and environmental considerations into all decisions affecting the operations of the Corporation. The policies, systems, and procedures are reviewed periodically for improvements. This is a management responsibility with specific terms of reference to be adhered to as defined by the Board of Directors.

Regal personnel and contractors are guided by the following principles:

- Compliance with all environmental laws, legislation, and policies as they relate to environmental matters and employee's health and safety;
- Developing policies, programs, and procedures and review sufficiency of resources available;
- Review environmental compliance issues and ensure timely and effective response and follow-up to incidents resulting from operations. Regal's Emergency Response Plan is regularly updated to ensure accuracy of contact information and other essential services;
- Review and monitor health and safety activities as they relate to the employees in the workplace on safety issues;
- Ensuring employees and contractors are properly trained, understand and accept responsibility to operate in a manner consistent with Regal's safety and environmental policies;
- Remain sensitive to the concerns of the public.

CORPORATE GOVERANCE

Corporate Governance relates to the activities of the Board of Directors who are elected by and accountable to the Shareholders, and takes into account the role of management who are appointed by the Board of Directors and who are charged with the on-going management of the Corporation. The Board of Directors of Regal encourages sound corporate governance practices designed to promote the well being and on-going development of the Corporation, with the ultimate long term objective of enhancing value for all Shareholders. The Board also believes that sound corporate governance benefits the Corporation's employees and the communities in which the Corporation operates.

The Board is of the view that the Corporation's corporate governance policies and practices, outlined below, are appropriate and substantially consistent with the guidelines for improved corporate governance in Canada adopted by the TSX Venture Exchange (the "TSX Guidelines"). The Corporation's corporate governance practices are designed with a view to ensuring that the business and affairs of the Corporation are effectively managed to enhance value for Shareholders. In addition to the recommended disclosure, the following is a discussion of the Corporation's philosophies and procedures in the area of corporate governance.

Mandate of the Board

The role of the directors is to oversee the conduct of the Corporation's business and to direct and supervise management in the day-to-day conduct of the business. The directors discharge the following specific responsibilities as part of their overall "stewardship responsibility":

- Adoption of a strategic planning process;
- The identification of the principal risks of the Corporation's business and the employment of appropriate systems to manage the risks;
- Succession planning, including appointing, training and monitoring senior management;
- Overseeing the Corporation's public communications policies and their implementation, including disclosure of material information, investor relations and shareholder communications; and
- Monitoring and assessing the scope, implementation and integrity of the Corporation's internal information, audit and control systems.

The directors expect management to be responsible for the day-to-day operations of the Corporation. Management is also expected to fully inform the Board on the business and affairs of the Corporation. The Board considers certain decisions to be sufficiently important that management should seek prior approval of the directors. Such decisions are:

- The annual capital and operating budget and any material changes to the budget;
- The acquisition or disposition of any significant oil and natural gas assets;
- Significant commitments with industry partners;
- Entering into forward pricing arrangements;
- Equity or debt financings;
- Changes to the management group; and
- Significant changes in corporate policies, goals or objectives.

Composition of the Board

The following individuals serve on the Board of Directors of the Corporation:

Brian H. Gore – Calgary, Alberta
Louis W. MacEachern - Calgary, Alberta
Douglas O. McNichol - Calgary, Alberta
Owen C. Pinnell (Chairman) - Calgary, Alberta
J. Ronald Woods – Toronto, Ontario

Owen C. Pinnell, Brian H. Gore, J. Ronald Woods and Louis W. MacEachern can be defined as "unrelated directors" or directors who are independent of management and are free from any interests and any business or other relationships which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interest of the Corporation, other than interests and relationships arising from shareholdings, and does not have interests in relationships with the Corporation.

Meetings of the Board

The Board meets at least once in each quarter with additional meetings held when appropriate. The Board also meets annually to review and approve the Corporation's business plan. Meeting frequency and agenda items may change, depending on the opportunities or risks faced by the Corporation.

Committees

The Board discharges its responsibilities both directly and through its committees. The committees are as follows:

1. The Audit and Reserves Committee (the "Committee") is comprised of three directors, all of whom may be considered to be unrelated directors. The current members are J. Ronald Woods (Chairman), Owen C. Pinnell, and Brian H. Gore. The Committee operates under a written charter (the "Charter") that is reviewed annually. The Charter provides that the principal function of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to:

    - the quality, integrity and appropriateness of the Corporation's systems of internal controls regarding finance, accounting and ethics;
    - the quality, integrity and appropriateness of the Corporation's financial reporting;
    - the quality, integrity and appropriateness of the Corporation's external auditors; and
    - the Corporation's compliance with legal and regulatory requirements.

    The Charter is reviewed annually by the Committee to ensure compliance with applicable regulatory requirements as well as best practices in an evolving governance environment. As part of its mandate, the Committee is responsible for reviewing the Corporation's financial reporting procedures, internal controls, risk management practices, the performance of the Corporation's external auditors and reviewing and recommending acceptance of reserve evaluations prepared by the Corporation's independent qualified engineering firm. The Committee is also responsible for reviewing quarterly and annual financial statements prior to their approval by the full Board. The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and has direct access to the independent auditors, any officer or employee of the Corporation and all books and records of the Corporation. At the request of any Committee

member, the Committee may retain, at the Corporation's expense, accounting, legal or other consultants or experts it deems necessary in the performance of its duties.

2. The Compensation and Governance Committee is comprised of three directors, two of whom may be considered to be unrelated directors. The members are Brian H. Gore (Chairman), Louis W. MacEachern and Douglas O. McNichol. This committee is responsible for setting compensation paid to officers and employees and establishing and reviewing incentive plans for the officers and employees.

DIRECTORS AND OFFICERS

Robert G. Dittmer, CA, Assistant Corporate Secretary, is a financial executive with over thirty years experience as a financial officer, secretary and director of various public and private companies in Canada. Mr. Dittmer is a Chartered Accountant and presently serves as Vice President Finance and Secretary of Anterra Corporation as well as Vice President of i3 Capital Partners Inc.

Ross O. Drysdale, Corporate Secretary, is Counsel with the law firm Burstall Winger LLP and has over thirty years of legal experience in western Canada. Mr. Drysdale has practiced extensively in the areas of oil and gas mergers, acquisitions and financings, with a particular focus on Canadian public markets. He holds a Bachelor of Arts degree from Mount Allison University and a Law Degree from the University of New Brunswick and was admitted to the New Brunswick bar in 1973 and the Alberta bar in 1978. Prior to moving to private practice in 1985, he spent over eight years working as legal counsel for two major oil and gas companies in Calgary. Mr. Drysdale is a director and officer of a number of private and public companies.

Brian H. Gore, Director, is the President of Pecos Capital Corp., a private company, and has over twenty eight years experience in the oil and gas industry and has held executive positions with Renaissance Energy, Barrington Petroleum Ltd. and Cigar Oil & Gas Ltd. and most recently held the position of Chairman and CEO of Pivotal Energy Ltd. Mr. Gore is a Professional Landman and currently serves as a director of Grand Banks Energy Corporation, a TSX Venture listed company and several private junior oil and gas companies. He is Chairman of the Land Agents Advisory Committee of the Small Explorers and Producers Association of Canada and also serves as a director of Trout Unlimited Canada, a not-for-profit organization.

Louis W. MacEachern, Director, is the President and owner of Fortune Industries Ltd. of Calgary. Fortune Industries was the major shareholder of the Servpro/Dalco group of companies until the sale of the group in 1999. Mr. MacEachern is a director of PetroKazakhstan Inc. a Toronto Stock Exchange listed energy company, Eagle Plains Resources Ltd., a TSX Venture listed junior mineral exploration company, and has been involved as a member and director of several charities. He is a Member of the Management Advisory Council of the Faculty of Management at the University of Calgary.

Douglas O. McNichol, P. Eng., President, Chief Executive Officer and Director, has over twenty five years of experience in the oil and gas industry in reservoir engineering, production operations, property exploitation, property and corporate acquisitions & divestitures and business development and has occupied senior management and executive positions in a number of public Canadian oil and gas companies. Mr. McNichol served as President and CEO and Director of Lexxor Energy Inc., a Toronto Stock Exchange listed company, prior to joining Regal Energy Corp. He holds a Bachelor of Science degree in Mechanical Engineering from the University of Calgary and is a registered Professional Engineer in Alberta.

Owen C. Pinnell, P.Eng., Chairman of the Board, has over twenty years of executive experience with various public and private companies in Canada and the United States. He is currently Managing Partner of the venture capital firm i3 Capital Partners Inc., a private venture capital company focusing on reorganizing and refinancing public and private energy and energy services companies in western Canada. Mr. Pinnell is the Chairman and CEO of Anterra Corporation, Chairman of Virtus Energy Ltd., and a director of Deep Resources Ltd., Ausam Energy Corporation and Purcell Energy Ltd. He was the founder, President and CEO of Anadime Corporation, a public oilfield service company. Prior to founding Anadime Corporation in 1992, he was the President and CEO of Newalta Corporation, an environmental service company listed on the Toronto Stock Exchange that he founded in 1982. Mr. Pinnell is a graduate of the Auckland Technical Institute in New Zealand in Mechanical Engineering, holds a Certificate in Business Strategy from the Massachusetts Institute of Technology and is a registered Professional Engineer in Alberta and British Columbia.

James R. Quillian, Vice President, Engineering and Operations, has over twenty five years of experience in the oil and gas industry in drilling and completions, production operations and acquiring and exploiting producing oil and gas properties. Mr. Quillian was the co-founder of three junior energy companies. He holds a Bachelor of Science degree in Petroleum Engineering from the Montana Institute of Science and Technology.

W. Wayne Shepheard, P. Geol., Vice President, Exploration and Land, has over thirty five years of oil and gas experience in the areas of property acquisitions, play generation, exploration and seismic program planning. He has been directly involved in defining exploration and development programs and supervising the professional and technical teams executing the plan. Mr. Shepheard holds a Bachelor degree in Geology and a Masters degree in Geology from the University of Calgary and is a registered Professional Geologist in Alberta.

Wayne R. Wilson, CGA, MBA, Vice President Finance and Chief Financial Officer, has over thirty years of experience in the oil and gas industry in the areas of finance, accounting, administration, corporate governance and information systems. Mr. Wilson was a co-founder and Vice President Corporate Development of BelAir Energy Corporation prior to joining Regal Energy Corp. He earned his Certified General Accountant designation in 1977 and his Masters of Business Administration degree in 1996.

J. Ronald Woods, Director, is President of Rowoods Capital Corp., a private holding and consulting company and is a director of Virtus Energy Ltd. Mr. Woods previously served as Vice President of Jascan Resources Ltd. where he was responsible for investment and acquisitions and as Vice President of Conwest Exploration Company Limited, a public oil and gas company listed on the Toronto Stock Exchange. Mr. Woods is a past member of the Listing Committee, Market Access Committee and the Board of Governors of the Toronto Stock Exchange. Mr. Woods holds a Bachelor of Commerce Degree from the University of Toronto, is a Certified Financial Analyst (CFA) and has extensive investment, research and regulatory experience related to the Canadian capital markets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of Regal's audited operating and financial results for the year ended December 31, 2004. There are no comparative numbers for the prior period as the Corporation began active operations during the first quarter of 2004. This MD&A should be read in conjunction with the audited financial statements for the year ended December 31, 2004. The information provided in this MD&A is current as at April12, 2005.

PRESENTATION OF CASH FLOW FROM OPERATIONS

The financial data presented below has been prepared in accordance with Canadian generally acceptable accounting principles (GAAP) except for the term cash flow from operations. Cash flow from operations has been presented for information purposes only and should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with GAAP. The Corporation considers cash flow from operations to be a key measure as it demonstrates the Corporation's ability to generate the cash necessary to repay debt and to fund future growth through capital investments. The determination of Regal's cash flow from operations may not be comparable to the same reported by other companies. The reconciliation of net earnings and cash flow from operations can be found in the statements of cash flow in the financial statements. Cash flow from operations per share was calculated using the same weighted average shares outstanding used in calculating net earnings per share.

BASIS OF BARREL OF OIL EQUIVALENT

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent (Boe) using 6,000 cubic feet of natural gas equal to one barrel of oil (6:1), unless otherwise stated. The Boe conversion ratio of 6 Mcf to 1 Bbl is based on an energy equivalency conversion method and does not represent a value equivalency; therefore Boe's may be misleading if used in isolation. (This conversion conforms to NI 51-101).

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Regal Energy Corp. are disclosed in Note 2 to the Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in these judgments and estimates may have a material impact on the Corporation's financial results and condition. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Corporation and the likelihood of materially different results being reported. Regal's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of significant accounting policies is not meant to be exhaustive. The Corporation might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Oil and Gas Reserves

Under NI 51-101, "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable (it is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves). In accordance with this definition, the level of certainty targeted by the reporting company should result in at least a 90 percent probability that the quantities actually recovered will equal or

exceed the estimated reserves. In the case of "Probable" reserves, which are obviously less certain to be recovered than Proved reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves. With respect to the consideration of certainty, in order to report reserves as Proved plus Probable, the reporting company must believe that there is at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable reserves. The implementation of NI 51-101 has resulted in a more rigorous and uniform standardization of Reserve evaluation. Proved plus Probable reserves as defined in NI 51-101 are viewed by many industry participants as being comparable to the "Established" reserves definition that was used historically. The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Corporation's plans. The reserve estimates are also used in determining the Corporation's borrowing base for its credit facilities and may impact the same upon revisions or changes to the reserves estimates. The effect of changes in proved oil and gas reserves on the financial results and position of the Corporation is described as follows under the heading "Full Cost Accounting for Oil and Gas Activities".

Regal's proved reserves as of December 31, 2004 amounted to 163,000 barrels of oil equivalent. Proved plus probable reserves were 211,000 Boe. All of Regal's reserves as at December 31, 2004, were evaluated by Gilbert Laustsen Jung Associates Ltd.

Additional reserve disclosure tables, as required under NI 51-101, are contained in the Statement of Reserves Data and Other Oil and Gas Information FORM 51-101F1 filed on SEDAR. The reserve estimates contained in the following table are working interest reserves before and after deduction of royalties.

Summary of Oil and Gas Reserves, Forecast Prices and Costs as at December 31, 2004

Reserves Category	Light and Medium Oil		Heavy Oil		Natural Gas		Oil Equivalent	
	Gross MBbls	Net MBbls	Gross MBbls	Net MBbls	Gross MMcf	Net MMcf	Gross MBoe	Net MBoe
Proved								
Developed Producing	46	39	27	27	329	261	128	110
Developed Non-producing	7	6	27	25	0	0	34	32
Undeveloped	0	0	0	0	0	0	0	0
Total Proved	53	46	55	53	329	261	163	142
Probable	9	7	28	27	67	56	48	44
Total Proved plus Probable	62	53	83	79	396	318	211	185

Note: Columns may not add due to rounding. "Gross" refers to the Corporation's working interest share before deduction of royalty interests and "Net" refers to the Corporation's working interest share after deduction of royalty interests.

Net Present Values of Future Net Revenue, Forecast Prices and Costs as at December 31, 2004

Reserves Category	Before Income Taxes Discounted at (% per year)				
($M)	0	5	10	15	20
Proved					
- Developed Producing	2,559	2,291	2,086	1,924	1,793
- Developed Non-producing	700	649	607	571	540
- Undeveloped	0	0	0	0	0
Total Proved	3,259	2,941	2,693	2,495	2,333
Probable	1,124	949	820	722	645
Total Proved plus Probable	4,383	3,890	3,514	3,218	2,978

Note: Columns may not add due to rounding. "Gross" refers to the Corporation's working interest share before deduction of royalty interests and "Net" refers to the Corporation's working interest share after deduction of royalty interests.

Full Cost Accounting for Oil and Gas Activities

Depletion Expense

The Corporation follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized whether successful or not. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to exploration and acquisition activities.

Capitalized costs are depleted and depreciated using the unit-of-production method based upon gross proved petroleum and natural gas reserves as determined by independent engineers. For purposes of the calculation, petroleum and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content, whereby one barrel of oil is equivalent to six thousand cubic feet of natural gas.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion by greater than twenty percent.

An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Withheld Costs

Costs of acquiring and evaluating unproved properties and goodwill are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property or goodwill is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Full Cost Accounting Ceiling Test

The carrying value of property, plant and equipment is reviewed quarterly for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rate, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

Asset Retirement Obligations

The Corporation is required to provide for future removal and site restoration costs. The Corporation must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to earnings and the appropriate liability account over the expected service life of the asset. When the future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings when management is able to determine the amount and the likelihood of the future obligation.

Income Tax Accounting

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential

reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Goodwill

The process of accounting for the purchase of a company results in recognizing the fair value of the acquired company's assets on the balance sheet of the acquiring company. Any excess of the purchase price over fair value is recorded as goodwill. Since goodwill results from the culmination of a process that is inherently imprecise the determination of goodwill is also imprecise. In accordance with the recent issuance of the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section 3062, "Goodwill and Other Intangible Assets", goodwill is no longer amortized but assessed periodically for impairment. The process of assessing goodwill for impairment necessarily requires Regal to determine the fair value of its assets and liabilities. Such a process involves considerable judgment.

Legal, Environmental Remediation and Other Contingent Matters

The Corporation is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings. The Corporation's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

RESULTS OF OPERATIONS

Regal began active operations during the first quarter of 2004 as an oil and gas exploration and development Corporation. Comparative results for 2003 and 2002 are provided where appropriate. A summary of operating netbacks follows:

	Three Months Ended				Total
Per Boe	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	2004
Revenue	$43.63	$42.44	$43.46	$36.74	$40.79
Royalties	(5.67)	(8.43)	(8.71)	(3.02)	(6.46)
Operating Costs	(13.93)	(10.74)	(11.20)	(9.25)	(10.51)
Operating Netback	$24.03	$23.27	$23.55	$24.27	$23.82

WORKING INTEREST SALES

	Three Months Ended				Total
Sales $	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	2004
Natural Gas	$ -	$151,005	$127,119	$121,239	$399,363
Crude Oil & NGLs	46,200	110,871	142,033	148,598	447,702
Total	$46,200	$261,876	$269,152	$269,837	$847,065

	Three Months Ended				Total
Sales Volumes	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	2004
Natural Gas (Mcf)	-	22,061	20,405	18,817	61,283
Crude Oil & NGLs (Bbls)	1,059	2,494	2,792	4,208	10,553
Total Oil Equivalent (Boe)	1,059	6,171	6,193	7,344	20,767
Total (Boe/d)	12	68	67	80	57

	Three Months Ended				Total
Sales Price Per Unit	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	2004
Natural Gas ($/Mcf)	-	6.84	6.23	6.44	6.52
Crude Oil & NGLs ($/Bbl)	43.63	44.46	50.87	35.31	42.42
Total Blended ($/Boe)	43.63	42.44	43.46	36.74	40.79

Regal's sales volumes during 2004 totaled 10,553 Bbls of crude oil and NGLs and 61,283 Mcf of natural gas for a total of 20,767 Boe (average of 57 Boe/d). Sales volumes during the first three quarters of the year were relatively consistent at 65-70 Boe/d (after payout was achieved by Regal on its Viking Kinsella property during the first quarter of 2004). Average sales volumes increased to 80 Boe/d during the fourth quarter as a result of a property purchase at Atlee Buffalo that added approximately 10 Boe/d of sales. In addition, in late November a heavy oil well was reactivated on the property. Heavy oil production from this property averaged 45 Bbl/d net to Regal in December.

Producing properties of the Corporation at year-end 2004 include:

		December 2004 Average Production Rate		
Area	Working Interest (%)	Gas (Mcf/d)	Oil & NGLs (Bbl/d)	Boe (Boe/d)
Atlee Buffalo	50 – 100	58	45	55
Viking Kinsella	20	163	0	27
Veteran	30 – 50	0	29	29
Total		221	74	110

COMMODITY PRICES

The average prices received for Regal's oil and NGLs, and natural gas sales during 2004 were $42.42/Bbl and $6.52/ Mcf respectively. Average crude and NGLs prices received during the fourth quarter dropped to an average of $35.31/Bbl as a result of heavy oil differential increases during the quarter and an increasing proportion of the Corporation's production being heavy oil from the Atlee Buffalo property.

ROYALTIES

Royalties which include crown, freehold and overrides paid on oil and gas production and net of Alberta Royalty Tax Credit (ARTC) were $134,185 during 2004. Average royalties were $6.46/Boe or 15.8% of petroleum and natural gas sales. During the fourth quarter the Corporation received confirmation from Alberta Energy that a reactivated well at Atlee Buffalo is royalty exempt until cumulative production from November 1, 2004 reaches 8,000 cubic metres (50,344 Bbls). It is anticipated that further oilwell re-activation candidates will also be exempt for a similar period.

OPERATING EXPENSES

During 2004, operating expenses totaled $218,348 for an average of $10.51/Boe. Approximately 16% of total operating expenses for the year were on Regal operated properties and 84% were on non-operated properties on which Regal had limited control over expenditures. It is anticipated that during 2005, a greater proportion of production will come from Regal operated properties and the Corporation intends to focus on reducing overall operating costs per Boe.

OTHER INCOME

During the year, Regal had $31,744 of other income (2003 - $nil). The majority of this other income was overriding royalty income received on a well in the Viking Kinsella area of Alberta. The well paid out in March 2004 and the Corporation elected to convert this overriding royalty to a 20% working interest position.

GENERAL AND ADMINISTRATIVE

During 2004, general and administrative costs totaled $487,017 or $23.45/Boe (2003 - $96,669, 2002 - $85,643) as follows;

	Three Months Ended						
	Mar. 31 2004	June 30 2004	Sept. 30 2004	Dec. 31 2004	Total 2004	Total 2003	Total 2002
Salaries & Benefits (1)	$ 33,313	$ 50,343	$ 61,934	$ 81,131	$226,721	$ -	$ -
Office Costs	21,610	26,365	28,626	29,478	106,079	7,032	13,416
Legal, Audit Engineering Fees	43,827	31,118	14,488	4,641	94,074	62,676	53,382
Other Consulting	3,825	25,275	13,665	14,927	57,692	12,440	12,866
Shareholder Services	2,755	10,970	7,248	3,652	24,625	14,521	5,979
Capital/Operating Recoveries	-	-	-	(22,174)	(22,174)	-	-
	$105,330	$144,071	$125,961	$111,655	$487,017	$96,669	$85,643

Note:
(1) After $137,500 of salary expense capitalized in 2004

Regal commenced active operations in the first quarter of 2004 with three full time employees. In August, Regal hired a fourth full time employee who had been consulting with the Corporation since the second quarter of 2004. On April 4, 2005 the Corporation hired one additional full-time employee who previously provided consulting services.

During the first and second quarter of 2004, higher than normal legal audit and engineering professional fees were incurred as a result of the Corporation's qualifying transaction and fundraising activities.

In the fourth quarter of 2004 the Corporation had capital and operating expense recoveries in the amount of $22,174. These recoveries are the result of the Corporation's operated joint venture capital projects as well as assuming operatorship of the Atlee Buffalo area.

Regal anticipates that per unit G&A costs will decrease during 2005 as production volumes increase.

INTEREST AND BANK CHARGES

Interest and bank charges for 2004 were $16,121. The majority of interest charges were related to the Corporation's promissory notes. During the year, Regal made limited use of its available bank lines of credit. At December 31, 2004 no amounts were drawn on any bank facility.

STOCK BASED COMPENSATION

The Corporation accounts for its stock-based compensation program using the fair-value method. Under this method, compensation expense related to this program is recorded in the statement of operations at the time of award. During 2004, 1,570,000 options were granted to officers and directors of the Corporation at prices ranging from $0.18 to $0.20. Costs of $66,327 were recorded for the Corporation's stock-based compensation program during 2004.

DEPLETION AND DEPRECIATION

Depletion and depreciation expense is calculated using the unit-of-production method based on total estimated proved reserves. Depletion and depreciation for year ended December 31, 2004 was $370,885 or $17.86/Boe. Depletion and depreciation per unit costs are expected to decline as the Corporation increases its reserve base.

INCOME TAXES

During 2004 the Corporation recorded a future tax recovery of $97,195 (2003 - $nil) as a result of the net loss incurred during the period. The Corporation recorded current tax expense of $9,180 during 2004 as a result of the change of control and amalgamation of a wholly-owned subsidiary with Regal.

NET EARNINGS AND CASH FLOW FROM OPERATIONS

	Three Months Ended				
	Mar. 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004	Total 2004
Weighted Average Shares Outstanding	12,439,913	16,864,941	21,629,501	22,660,767	18,455,487
Net Income (Loss)	$(87,518)	$(89,044)	$(87,360)	$(69,115)	$(333,037)
Per Share Basic and Diluted	$(0.01)	$(0.01)	$0.00	$0.00	$(0.02)
Cash Flow From Operations (2)	$(48,947)	$(3,721)	$8,290	$58,336	$13,958
Per Share Basic and Diluted	$0.00	$0.00	$0.00	$0.00	$0.00

	Three Months Ended				
	Mar. 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	Total 2003
Weighted Average Shares Outstanding	2,450,000	2,450,000	2,450,000	2,701,087	2,513,288
Net Income (Loss)	$(8,246)	$(13,998)	$(12,523)	$(61,902)	$(96,669)
Per Share Basic and Diluted	$0.00	$(0.01)	$(0.01)	$(0.02)	$(0.04)
Cash Flow From Operations (2)	$(8,246)	$(13,998)	$(12,523)	$(61,902)	$(96,669)
Per Share Basic and Diluted	$0.00	$(0.01)	$(0.01)	$(0.02)	$(0.04)

Notes:

(1) Weighted average shares outstanding have been restated to take into consideration the 1 for 2 consolidation of the Corporation's shares that occurred on January 30, 2004.

(2) Cash flow from operations has been presented for information purposes only and should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with GAAP. The Corporation considers cash flow from operations to be a key measure as it demonstrates the Corporation's ability to generate the cash necessary to repay debt and to fund future growth through capital investment. The determination of Regal's cash flow from operations may not be comparable to the same reported by other companies. The reconciliation of net earnings and cash flow from operations can be found in the statements of cash flow in the consolidated financial statements. Cash flow from operations per share was calculated using the same weighted average shares outstanding used in calculating net earnings per share.

The net loss for 2004 totaled $333,037, $0.02 per share basic and fully diluted. The weighted number of basic shares outstanding during the year was 18,455,487. The loss was mainly due to general and administrative expenses for the Corporation totaling $487,017, a high initial rate of depletion and depreciation expense totaling $370,885 and stock based compensation expenses of $66,327.

Cash flow from operations for 2004 totaled $13,958, $0.00 cash flow per share basic and fully diluted.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EXPENDITURES

During 2004, Regal recorded capital expenditures totaling $3,958,146 including $2,383,909 of acquisition costs capitalized, $885,763 on drilling and completion activities, $206,167 on equipping costs, asset retirement obligations of $172,299, and $172,508 on miscellaneous projects and evaluations and other fixed assets. During the year, $137,500 of general and administrative expenditures were capitalized.

On January 31, 2005 Regal announced that it had acquired 96 percent of Thunder Road Resources Ltd. a private Alberta oil and gas company and that it would acquire the balance of the company through the

compulsory acquisition provisions of the *Business Corporations Act* (Alberta). Regal subsequently finalized its acquisition and issued a total of 1,913,172 shares and 324,109 share purchase warrants (exercisable at $0.35 per share until December 31, 2005) to effect the transaction.

DEBT

Promissory notes in the amount of $200,000 are payable to two insiders of the Corporation and their spouses as a result of the Qualifying Transaction completed on January 30, 2004. The promissory notes bear interest at a rate of prime plus 2 percent payable quarterly. On January 30, 2005 Regal discharged these Promissory notes by making payment of $201,027 principal and interest.

LENDING FACILITY

Effective January 1, 2005 the Corporation negotiated an increase in its revolving operating demand facility to $1,250,000 that bears interest at the bank prime rate plus 1.0 percent. Repayments of the facility are not required provided the amounts borrowed do not exceed $1,250,000 or an amount to be determined from time to time. The Corporation also has a non-revolving acquisition / development facility in the amount of $250,000 which bears interest at the bank prime rate plus 1 1/2 percent. The loan facilities are secured by a $5,000,000 floating charge demand debenture over all assets of the Corporation. At December 31, 2004 no amounts were drawn on either facility. The loan facilities are subject to a review of the Corporation's independent reserve report by the bank in April 2005.

FINANCIAL INSTRUMENTS

As disclosed in Note 2 e) of the 2004 year end consolidated financial statements, the Corporation holds various forms of financial instruments. The nature of these instruments and the Corporation's operations expose the Corporation to credit risk. The Corporation manages its exposure to this risk by operating in a manner that minimizes its exposure to the extent practical.

EQUITY CAPITAL

During 2004, the Corporation issued the following equity instruments:

Date	Transaction	Equity Instrument	Number	Gross Consideration
January 30, 2004	Option Grant	Share Options (1)	1,320,000	$ 0
January 30, 2004	Private Placements	Common shares	10,761,001	$1,614,300
January 30, 2004	Qualifying Transaction-Acquisition	Common shares	2,500,000	$ 250,000
January 30, 2004	Qualifying Transaction-Agents Fee	Warrants (2)	500,000	$ 0
June 30, 2004	Private Placements	Flow-Through Common shares	4,817,500	$ 955,438
June 30, 2004	Private Placements	Warrants (3)	267,225	$ 8,062
August 17, 2004	Option Grant	Share Options (4)	250,000	$ 0
November 5, 2004	Private Placements	Flow-Through Common shares	1,664,500	$ 399,480

Notes:
(1) Exercisable into 1,320,000 shares of Regal at a price of $0.20 per share until January 30, 2009
(2) Exercisable into 500,000 shares of Regal at a price of $0.15 per share until November 30, 2005
(3) Exercisable into 267,225 shares of Regal at a price of $0.20 per share until June 30, 2006
(4) Exercisable into 250,000 shares of Regal at a price of $0.18 per share until August 17, 2009

As at December 31, 2004 Regal had 23,294,001 shares issued and outstanding. A further 2,887,225 shares are reserved for the exercise of options and warrants bringing the total diluted shares as at December 31, 2004 to 26,181,226.

In 2005 Regal acquired Thunder Road Resources Ltd. through the issuance of 1,913,172 shares and 324,109 share purchase warrants (exercisable at $0.35 per share until December 31, 2005).

FINANCIAL CONDITION

At December 31, 2004, the Corporation had a net working capital deficiency of $460,764 compared to a surplus of $46,739 at December 31, 2003. A combination of bank debt, new equity, cash flow and working capital surplus will allow the Corporation to conduct its 2005 budget. The majority of 2005 capital will be spent in the first eight months of the year. At year end 2005 it is anticipated that approximately 35% of the available banking facility will be utilized. Planned 2005 capital expenditures will be adjusted to reflect unforeseen changes in commodity prices, exchange rates, interest rates and heavy oil differentials from those used in the budgeting process. Sensitivities to the above variables follow:

Variable	Change of	Net Income Change	Cash Flow Change
Natural Gas Pricing	$0.10/Mcf	$12,200	$12,200
Crude Oil Pricing	$1.00/Bbl Cdn .	$97,000	$97,000
Exchange Rate	$0.01 Cdn.	$60,000	$60,000
Interest Rate	1.0%	$ 7,000	$ 7,000

RELATED PARTY TRANSACTIONS

During 2004, the Corporation had the following related party transactions;

a) In 2004, the Corporation paid fees of $112,732 (2003 - $21,050) to a company controlled by a director for consulting services, fees for acting as agent for the Qualifying Transaction as well as a finder's fee for an asset purchase completed during the first quarter of 2004. In addition, the Corporation issued 500,000 warrants to a company controlled by a director as partial consideration for acting as the agent regarding the Qualifying Transaction. Each warrant entitles the holder to purchase one common share of the Corporation at a price of $0.15 per common share until November 30, 2005.

b) In 2004, the Corporation paid fees of $182,732 (2003 - $nil) in legal and associated fees to a legal firm in which a partner is also an officer of the Corporation.

c) Directors and officers of the Corporation participated in four separate financings during 2003 and 2004. Shares purchased by this group in the financings are as follows;

Date	Shares Purchased	Amount
December 12, 2003	975,000	$ 97,500
January 30, 2004	1,830,000	$274,500
June 30, 2004	1,000,000	$200,000
November 5, 2004	464,500	$111,480

Promissory notes in the amount of $200,000 are payable to officers of the Corporation and their spouses as a result of the Qualifying Transaction completed on January 30, 2004 as discussed in Note 3. The notes bear interest at prime plus 2 percent and are due after one year or immediately if the Corporation raises additional share capital of $2,000,000. On January 30, 2005, the Corporation repaid $200,000 of promissory notes payable to insiders and related parties to the Corporation. In addition, 2,500,000 common shares were issued to officers of the Corporation and their spouses in 2004 as partial consideration for the Qualifying Transaction.

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

SUMMARY OF SHARE TRADING DURING 2004

On February 24, 2004 Regal's shares commenced trading on the TSX Venture Exchange under the symbol "RGN".

	Price Range				
Period of 2004	**High ($)**	**Low ($)**	**Close ($)**	**Volume Traded**	**Value ($)**
First Quarter	0.50	0.27	0.28	52,000	15,573
Second Quarter	0.30	0.105	0.135	676,000	110,594
Third Quarter	0.245	0.13	0.22	2,615,650	504,733
Fourth Quarter	0.25	0.17	0.21	1,709,917	358,382
Total				5,053,567	989,282

ADDITIONAL INFORMATION REGARDING REGAL ENERGY CORP.

Additional information regarding Regal Energy Corp. is available on the internet at www.sedar.com

MANAGEMENT'S REPORT

To the Shareholders of Regal Energy Corp.

The accompanying financial statements of Regal Energy Corp. and all of the information in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles as outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

BDO Dunwoody LLP, the external auditors of the Corporation conduct an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes such tests and procedures considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The Audit and Reserves Committee of the Board of Directors, with all of its members being outside directors, has reviewed the financial statements, including notes thereto, with management and BDO Dunwoody LLP. The financial statements have been approved by the Board of Directors on the recommendation of the Audit and Reserves Committee.

Douglas O. McNichol
President and Chief Executive Officer

Wayne R. Wilson
V.P. Finance and Chief Financial Officer

Calgary, Alberta
April 12, 2005

AUDITOR'S REPORT

To the Shareholders of Regal Energy Corp.

We have audited the balance sheets of Regal Energy Corp. as at December 31, 2004, and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Calgary, Alberta
February 15, 2005

ANNUAL FINANCIAL STATEMENTS

REGAL ENERGY CORP.

BALANCE SHEET

As at December 31	2004	2003
ASSETS		
Current Assets		
Cash	$ 391,285	$ 168,544
Accounts receivable	331,062	418
Prepaid expense	33,857	-
	756,204	168,962
Deferred costs	-	82,829
Property and equipment (Note 4)		
Property and equipment, at cost	3,958,146	-
Accumulated depletion and depreciation	(370,885)	-
	3,587,261	-
Goodwill (Note 3)	200,000	-
	$ 4,543,465	$ 251,791
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,016,968	$ 122,223
Promissory notes (Note 3, Note 7(c))	200,000	-
	1,216,968	122,223
Asset retirement obligation (Note 8)	179,277	-
Future taxes payable (Note 9)	640,000	-
	2,036,245	122,223
Shareholders' equity		
Equity Instruments (Note 6)	3,198,662	554,300
Contributed surplus (Note 6(d))	66,327	-
Deficit	(757,769)	(424,732)
	2,507,220	129,568
Subsequent event (Note 13)		
	$ 4,543,465	$ 251,791

APPROVED BY THE DIRECTORS:

Director – Douglas O. McNichol

Director – Owen C. Pinnell

The accompanying notes are an integral part of these financial statements.

ANNUAL FINANCIAL STATEMENTS

REGAL ENERGY CORP.

STATEMENT OF OPERATIONS AND DEFICIT

For the Years Ended December 31		2004		2003
Revenue				
Petroleum and natural gas sales	$	870,196	$	-
Transportation costs		(23,131)		
Royalties (net of ARTC)		(134,185)		-
Other income		31,744		-
		744,624		-
Expenses				
Operating expense		218,348		-
Accretion (Note 8)		6,978		-
General and administrative (Note 4)		487,017		96,669
Interest and bank charges		16,121		-
Stock based compensation (Note 6(d))		66,327		-
Depletion, depreciation and amortization		370,885		-
		1,165,676		96,669
Loss for the year before taxes		421,052		96,669
Taxes (Note 9)				-
Future income tax (recovery)		(97,195)		-
Current tax		9,180		-
		(88,015)		-
Net loss for the year		333,037		96,669
Deficit, beginning of year		424,732		328,063
Deficit, end of year	$	757,769	$	424,732
Basic loss per share (1)	$	0.02	$	0.04
Weighted average number of shares outstanding		18,455,487		2,513,288

(1) Diluted loss per share has not been disclosed as such would be anti-dilutive.

The accompanying notes are an integral part of these financial statements.

ANNUAL FINANCIAL STATEMENTS

REGAL ENERGY CORP.

STATEMENT OF CASH FLOWS

For the Years Ended December 31	2004	2003
Cash Provided By (Used For):		
Cash flow from operating activities		
Net loss for the year	$ (333,037)	$ (96,669)
Items not involving cash:		
Future income taxes (Note 9)	(97,195)	-
Asset retirement obligation (Note 8)	6,978	-
Stock based compensation (Note 6)	66,327	-
Depletion, depreciation and amortization	370,885	-
	13,958	(96,669)
Changes in non-cash working capital balances		
Accounts receivable	(223,167)	
Prepaid expenses	(33,857)	(418)
Accounts payable and accrued liabilities	81,571	101,580
	(175,453)	4,493
	(161,495)	4,493
Cash flow from investing activities		
Net change in non-cash working capital balances	714,484	
Net cash paid on acquisition	(853,176)	-
Capital expenditures	(2,351,457)	-
	(2,490,149)	-
Cash flow from financing activities		
Issue of common shares	2,791,556	100,000
Deferred costs	82,829	(82,829)
	2,874,385	17,171
Increase in cash	222,741	21,664
Cash, beginning of year	168,544	146,880
Cash, end of year	$ 391,285	$ 168,544

The accompanying notes are an integral part of these financial statements.

REGAL ENERGY CORP.
NOTES TO THE FINANICAL STATEMENTS

1) Nature of Operations

The Company was incorporated on May 24, 2000 pursuant to the Business Corporations Act (Yukon Territory) as Buckeye Energy Corporation ("Buckeye").

Buckeye operated as a capital pool company established under the policies of the TSX Venture Exchange. On February 27, 2003, the TSX Venture Exchange suspended trading in the Company's securities for failure to complete a Qualifying Transaction within the period allowed pursuant to the policies of the Exchange. On November 24, 2003, the Company entered into a standstill and share purchase agreement for an acquisition of an Oil and Gas Company, which constituted a Qualifying Transaction pursuant to Policy 2.4 of the TSX Venture Exchange.

On January 30, 2004, the shareholders of Buckeye approved the Qualifying Transaction, the continuation of the Company as an Alberta Corporation under the Business Corporations Act (Alberta), and the change of the name of the corporation to Regal Energy Corp. ("Regal" or the "Company"). The shareholders approved the reorganization of the Company's share capital whereby the issued common shares were consolidated on a one for two basis. The number of common shares, warrants, stock options, and per share amounts has been restated to reflect this reorganization. With the completion of its Qualifying Transaction, the Company's principal business activities became the exploration, acquisition, development, and production of petroleum and natural gas in western Canada.

2) Summary of Significant Accounting Policies

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. In particular, the amounts recorded for depletion and depreciation of petroleum and natural gas properties, the ceiling test, goodwill, asset retirement obligations, and stock-based compensation are based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the Company's accounting policies summarized below.

a) Revenue Recognition

Revenues associated with the sale of natural gas, crude oil and natural gas liquids owned by the Company are recognized when title passes from the Company to its customer.

b) Stock Based Benefits Plan

In September 2003, the CICA issued an amendment to Section 3870 - Stock based compensation and other stock based payments. The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. The Company has implemented this amended standard in 2003 in accordance with the early adoption provisions of the standard. Per the transitional provisions, compensation expense has been calculated and recorded in the statement of operations for only those options issued on or after January 1, 2003. There were no options issued during 2003.

c) Earnings per Share Amounts

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

d) Cash

Cash and cash equivalents include amounts on deposit with financial institutions as well as short term investments which have a maturity of three months or less when purchased.

e) Financial Instruments

The Company carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The carrying values of Regal's monetary assets and liabilities approximate their fair values.

f) Hedging

Effective January 1, 2004, the Company has implemented CICA Accounting Guideline (AcG-13), "Hedging Relationships", which is effective for fiscal years beginning on or after July 1, 2003. AcG-13 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purposes of applying hedge accounting. It also established conditions for applying or discontinuing hedge accounting. Under the new guideline, hedging transactions must be documented and it must be demonstrated that the hedges are sufficiently effective in order to continue accrual accounting for position hedges with derivatives. The Company has no hedges in place at December 31, 2004. As a result, the adoption of AcG-13 had no impact on the Company.

g) Property and Equipment

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized whether successful or not. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment, asset retirement costs and the portion of general and administrative expenses directly attributable to exploration and development activities.

Capitalized costs are depleted and depreciated using the unit-of-production method based upon gross proven petroleum and natural gas reserves as determined by independent engineers. For purposes of the calculation, petroleum and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content, whereby one barrel of oil is equivalent to six thousand cubic feet of natural gas. Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would alter the rate of depletion by greater than twenty percent.

The Company follows the Oil and Gas Accounting - Full Cost (AcG-16) accounting guideline for accounting for impairment of long-lived assets. Under the guideline, the Company conducts a cost-center impairment test (ceiling test) at each balance sheet date. Under the guideline, the Company reviews the carrying value of its assets relative to their recoverable amount. The net recoverable amount is determined by a two step process. The first step determines if impairment has occurred by calculating whether the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets based on proven reserves using reasonable estimates of future oil and natural gas prices. If impairment has occurred, the second step measures the amount of the impairment loss as the amount by which the carrying amount of capitalized assets exceeds the sum of the fair value of proved and probable reserves.

Office furniture and equipment is recorded at cost. Amortization is provided using the straight-line method over the following years:

- Furniture and fixtures 5 years
- Computer equipment 3 years

h) Asset Retirement Obligations

The Company calculates and records the estimated fair value of each asset retirement obligation in the period a well or related asset is drilled, constructed, or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset and restore the site at the Company's credit adjusted risk-free interest rate. The obligation is reviewed regularly by Company's management based on current regulations, costs, technologies, and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related oil and natural gas properties and a corresponding liability is recognized. The increase in oil and natural gas properties is depleted and depreciated on the same basis as the remainder of the oil and natural gas properties. The liability is accreted against income until it is settled or the property is sold. Actual restoration expenditures are charged as reductions to the accumulated obligation when incurred.

i) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

j) Joint Venture Operations

The majority of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

k) Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets received, is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value is less than the carrying value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount. Goodwill is not amortized.

l) Flow-Through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Under the liability method of accounting for income taxes, the future income taxes related to the temporary differences arising when expenditures are renounced are recorded at that time together with a corresponding reduction to the carrying value of the shares issued in accordance with EIC - 146.

3) Business Combination

On February 2, 2004 pursuant to a Management Proxy Circular, for the Qualifying Transaction dated December 29, 2003 the Company completed its Qualifying Transaction. The Company acquired all of the outstanding common shares of 665433 Alberta Ltd., a private Alberta oil and gas company. The acquisition was accounted for using the purchase method with Regal Energy Corp. being the deemed acquirer. The results of operations have been included from the date of acquisition. Details of the transaction are as follows:

Consideration Given Up:

Cash	$ 700,493
Promissory notes	200,000
Transaction costs	155,227
Share capital issued	250,000
Total Consideration Given Up	$1,305,720

Allocated to:	
Property and equipment	$1,438,012
Goodwill	200,000
Cash	2,544
Working capital	8,788
Asset retirement obligation	(3,624)
Future income tax liability	(340,000)
Total Allocation	$1,305,720

The 2,500,000 common shares and promissory notes issued to the shareholders of 665433 Alberta Ltd. have been excluded from the statement of cash flows as this was a non-cash transaction. The wholly owned subsidiary, 665433 Alberta Ltd. was subsequently amalgamated with the Company on August 2, 2004.

4) Property and Equipment

2004	Cost	Accumulated depletion, depreciation and amortization	Net book value
Petroleum and natural gas properties and equipment	$3,916,916	$360,978	$3,555,938
Office furniture and equipment	41,230	9,907	31,323
	$3,958,146	$370,885	$3,587,261

2003	Cost	Accumulated depletion, depreciation and amortization	Net book value
Petroleum and natural gas properties and equipment	$ -	$ -	$ -
Office furniture and equipment	-	-	-
	$ -	$ -	$ -

During 2004, $137,500 (2003 - $ nil) of general and administrative costs were capitalized to oil and gas properties. As at December 31, 2004, $130,000 (2003 - $ nil) of costs of acquiring unproved properties were excluded from the depletion and ceiling test calculations. In calculating the ceiling test at December 31, 2004, future net revenues exceeded net capitalized costs. The prices used in the ceiling test were those used by the Company's independent reservoir engineers adjusted for U.S./Canadian dollar exchange, heating value, transportation and quality of the Company's production as follows:

Year	Edmonton Light Crude Cdn. $/Bbl	Hardisty Bow River Crude Cdn. $/bbl	AECO Natural Gas Cdn. $/MMBTU
2005	$50.25	$35.00	$6.60
2006	47.75	35.25	6.35
2007	45.50	35.00	6.15
2008	43.25	33.25	6.00
2009	40.75	31.50	6.00
2010	39.50	30.50	6.00
2011	39.50	30.50	6.00
2012	39.50	30.50	6.00
2013	40.00	30.75	6.10
2014	40.75	31.50	6.20
2015	41.25	31.75	6.30
2016 +	+2% per year thereafter	+2% per year thereafter	+2% per year thereafter

5) Lending Facility

The Company has a revolving operating demand facility of $1,250,000 (2003 - $ nil) that bears interest at the bank prime rate plus 1.0 percent. Repayments of the facility are not required provided the amounts borrowed do not exceed $1,250,000 or an amount to be determined from time to time. The Company also has a non-revolving acquisition/development facility in the amount of $250,000 (2003 - $ nil) which bears interest at the bank prime rate plus 1½ percent. The loan facilities are subject to a review of the Company's independent reserve report by the bank in April, 2005. The loan facilities are secured by a $5,000,000 floating charge demand debenture over all assets of the Company. At December 31, 2004, no amounts are drawn on either facility. At December 31, 2004 the bank prime rate was 4.25%.

6) Equity Instruments

Common Shares

a) Authorized: An unlimited number of common shares without par value.

b) Issued and outstanding:

Common shares (i)	Number of Shares		Amount
Balance December 31, 2002	2,450,000	$	525,906
Issued			
For cash at $0.10 per share (ii)	1,100,000		110,000
Share issuance costs			(88,200)
Balance December 31, 2003	3,550,000		547,706
Issued			
On the acquisition of 665433 Alberta Ltd. at $0.10(iii)	2,500,000		250,000
For cash at $0.15 per share (iv)	10,762,001		1,614,300
For cash at $0.20 per share for flow through shares (v)	4,817,500		955,438
For cash at $0.24 per share for flow through shares (vi)	1,664,500		399,480
Share issuance costs (net of tax effect, $76,105)			(109,618)
Tax impact of flow through share issue			(473,300)
Balance December 31, 2004	23,294,001	$	3,184,006

Share Purchase Warrants (i)	Number of Warrants	Number of Shares		Amount
Issued December 12, 2003 (ii)	1,100,000	550,000	$	6,594
Balance December 31, 2003	1,100,000	550,000		6,594
January 30, 2004 (iv)	500,000	500,000		21,200
June 30, 2004 (v)	267,225	267,225		8,062
Issue Costs				(21,200)
Balance December 31, 2004	1,867,225	1,317,225	$	14,656
Total equity instruments			$	3,198,662

(i) Concurrent with the Qualifying Transaction, the Company affected a one for two stock consolidation. All amounts have been restated to give effect to this stock consolidation.

(ii) On December 12, 2003, the Company closed a private placement and issued 1,100,000 Units ("Units") at a price of $0.10 per Unit. Each Unit consisted of one common share of the Company and one warrant of the Company of which two warrants will be required to purchase one common share at $0.15 per common share until November 30, 2005. A total of 550,000 shares are reserved for the exercise of these warrants.

(iii) On January 30, 2004 in partial consideration for the Qualifying Transaction the Company issued 2,500,000 common shares at $0.10 per common share (Note 7(c)).

(iv) On January 30, 2004 the Company closed a private placement of 10,762,001 common shares at $0.15 per common share. In addition, the Company issued 500,000 warrants to a related party as partial consideration for acting as the agent regarding the Qualifying Transaction. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.15 per common share until November 30, 2005. A total of 500,000 shares are reserved for the exercise of these warrants.

(v) On June 30, 2004 the Company closed a private placement of 4,817,500 flow through common shares at $0.20 per share. In connection with this private placement, 267,225 agents warrants were issued that entitle the holder to purchase one common share of the Company at a price of $0.20 per common share until June 30, 2006. The value allocated to the warrants is $8,062. Pursuant to this flow through share financing the Company is committed to spend $963,500 on qualified exploration expenditures by December 31, 2005. As of December 31, 2004 the Company had expended approximately $601,000 of this commitment.

(vi) On November 5, 2004, the Company closed a private placement of 1,664,500 flow through common shares at $0.24 per share. Pursuant to this flow through share financing the Company is committed to spend $399,480 on qualified exploration expenditures by December 31, 2005. As of December 31, 2004 the Company had expended $ nil of this commitment.

c) Escrow shares and warrants:

In accordance with the policies of the Exchange, a total of 4,950,000 (2003 – 2,450,000) of the Company's issued shares were held pursuant to escrow agreements and will be released on a pro-rata basis, over a 36 month period from the date of February 23, 2004, the date of the final notice of the TSX Venture Exchange as to the completion of the Qualifying Transaction. During 2004, 1,237,500 shares were released from escrow.

The warrants issued pursuant to the Company's December 12, 2003 private placement are also subject to an escrow agreement and will be released over a 36-month period from February 23, 2004. As at December 31, 2004, a total of 550,000 warrants have been released from escrow leaving a remaining balance of 1,650,000 warrants in escrow.

d) Stock options:

Stock options to purchase common shares have been granted to directors, officers and employees at exercise prices determined by reference to the market value on the date of the grant. The Company can grant options to a number that is equivalent to 10% of its issued shares.

On January 30, 2004, the Company cancelled the outstanding options as at December 31, 2003 and issued 1,320,000 stock options to the directors and officers of the Company. On August 17, 2004 the Company issued 250,000 options to an Officer. One third of the options vest on the day the options are granted and the remaining two thirds vest on the first and second anniversaries of the date of grant respectively.

	Number of Options	Exercise Price	Expiry Date
Outstanding December 31,2002	303,000	$0.15	February 9, 2006
Cancelled	(54,000)	0.15	February 9, 2006
Outstanding December 31, 2003	249,000	0.15	February 9, 2006
Cancelled	(249,000)	0.15	February 9, 2006
Issued	1,320,000	0.20	January 30, 2009
Issued	250,000	0.18	August 17, 2009
Outstanding December 31, 2004	1,570,000	$0.19	

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants with a risk free interest rate at 4%, an expected life of 5 years, an expected volatility of 0.30, and the weighted average fair value of options granted of $0.068.

The following table summarizes information about stock options outstanding at December 31, 2004.

Exercise Price	Options Outstanding	Weighted Average Remaining Term (years)	Options Exercisable
$0.18	250,000	4.66	83,325
$0.20	1,320,000	4.08	439,956
	1,570,000	4.17	523,281

The Company recorded stock based compensation expense in the Statement of Operations for stock options granted to employees and directors in 2004 using the fair value method in the amount of $66,327 (2003 $ nil).

7) Related Party Transactions:

The Company had the following related party transactions:

a) In 2004, the Company paid fees of $112,732 (2003 - $ 21,050) to a company controlled by a director for consulting services, fees for acting as agent for the Qualifying Transaction as well as a finder's fee for an asset purchase completed during the first quarter of 2004. In addition, the Company issued 500,000 warrants to a Company controlled by a director as partial consideration for acting as the agent regarding the Qualifying Transaction. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.15 per common share until November 30, 2005.

b) In 2004, the Company paid fees of $182,732 (2003 - $nil) in legal and associated fees to a legal firm in which a partner is also an officer of the Company.

c) Directors and officers of the Company participated in four separate financings during 2003 and 2004. Shares purchased by this group in the financings are as follows:

Date	Shares Purchased		Amount
December 12, 2003	975,000	$	97,500
January 30, 2004	1,830,000		274,500
June 30, 2004	1,000,000		200,000
November 5, 2004	464,500		111,480

Promissory notes in the amount of $200,000 are payable to officers of the Company and their spouses as a result of the Qualifying Transaction completed on January 30, 2004 as discussed in Note 3. The notes bear interest at prime plus 2 percent and are due after one year or immediately if the Company raises additional share capital of $2,000,000. On January 30, 2005, the Company repaid $200,000 of promissory notes payable to insiders and related parties to the Company. In addition, 2,500,000 common shares were issued to officers of the Company and their spouses as partial consideration for the Qualifying Transaction.

All related party transactions are in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

8) Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

Asset retirement obligation, December 31, 2003	$	-
Liabilities assumed on corporate acquisition		1,877
Liabilities incurred on property acquisition		145,592
Liabilities incurred on drilling		24,830
Liabilities settled		-
Accretion expense		6,978
Asset retirement obligation, December 31, 2004	$	179,277

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at $299,500. The obligation was calculated using a credit-adjusted risk free discount rate of 9 percent and an inflation rate of 2 percent. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2010 and 2015.

9) Income Taxes

(a) The Company has an effective tax rate, which differs from the expected Canadian income tax rate. The differences are as follows:

		December 31, 2004		December 31, 2003
Statutory rate		38.87%		37.0%
Computed expected tax provision	$	(163,663)	$	(35,767)
Increase (decrease) resulting from:				-
Stock compensation		25,781		-
Resource allowance		35,276		-
Other		564		7,487
Rate adjustment		14,027		-
Valuation allowance		-		28,280
Provision (recovery) for corporate taxes	$	(88,015)	$	-

(b) Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

		2004		2003
Property and equipment	$	(647,680)	$	-
Non-capital loss carry forwards		227,413		174,579
Share issue costs		66,470		5,787
Flow through share tax liability		(286,203)		-
		(640,000)		180,366
Valuation allowance		-		(180,366)
Future tax asset (liability)	$	(640,000)	$	-

(c) The Company has non-capital losses for income tax purposes of approximately $669,000 (2003 - $471,940), which are available to reduce taxable incomes of future years. If not utilized, these losses will start to expire in 2006.

10) Supplemental Cash Flow Information

During the year, 16,121 of interest was paid, $11,521 of which was paid to the holders of the promissory note as discussed in Note 7(c).

11) Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value, interest rate and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Commodity price risk
The Company is subject to commodity price risk for the delivery of natural gas and crude oil.

Credit and concentration risk
A significant portion of the Company's cash is currently held with the same financial institution and, as such, the Company is exposed to concentration of credit risk. Substantially all the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. As of December 31, 2004, 89% of trade receivables were from four customers. As of December 31, 2004, 89 percent of trade receivables were from four customers. The majority of the Company's commodity sales are marketed through three independent marketers. The Company mitigates this concentration risk by insuring payments for commodities are made on a timely basis. The Company retains the right on a majority of its sales contracts to alter marketing arrangements by giving 30 days notice.

12) Commitments

At December 31, 2004, the Company had commitments for the lease of office space totaling $42,087 for 2005, and $3,507 for 2006.

13) Subsequent Event

On January 31, 2005 the Company acquired 96.3% of the issued and outstanding shares of Thunder Road Resources Ltd. ("TRRL") an oil and gas company operating in Alberta. Regal acquired the remaining outstanding shares of Thunder Road Resources Ltd. under the compulsory acquisition provisions of the Alberta Business Corporations Act on February 14, 2005. Consideration for the transaction was 1.0 Regal common share for each 4.28 TRRL shares outstanding plus one Regal warrant that entitles the holder to purchase one Regal share for $0.35 until December 31, 2005. Additionally TRRL had 400,000 options outstanding that were converted into Regal shares on the basis of 1.0 Regal share for each 20.0 TRRL options outstanding. Total shares issued by Regal to complete the transaction were 1,913,172. Total share purchase warrants issued were 324,109.

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

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***J. Ronald Woods** (1)*

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(2) Compensation Committee
(3) Chairman of the Board

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James R. Quillian
Vice President, Engineering & Operations

W. Wayne Shepheard
Vice President, Exploration & Land

Wayne R. Wilson
Vice President Finance & CFO

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TSX Venture Exchange
Trading Symbol: **RGN**

2004 Annual Report

CORPORATE HEADQUARTERS

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